

## Message Text

CONFIDENTIAL

PAGE 01 EC BRU 03437 171849Z

65-60

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

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E.O. 11652: ADS "DECLASSIFIED ON JAN. 1, 1978"

TAGS: EFIN, EEC

SUBJECT: EC MONETARY COMMITTEE TAKES UP IMF ISSUES

REFS: A). EC BRUSSELS 1317 B). EC BRUSSELS 1422

1. SUMMARY: THE EC MONETARY COMMITTEE DISCUSSED ON APRIL 14-15 SEVERAL IMF ISSUES IN PREPARATION FOR THE NEXT WP-3 MEETING. AGREEMENT WAS REACHED ON PROPOSED IMF QUOTA ALLOCATIONS, BUT THE NINE DIFFERED ON HOW TO TREAT GOLD AND EXCHANGE RATES. END SUMMARY.

2. IMF QUOTA ALLOCATIONS: THE EC MONETARY COMMITTEE REACHED A CONSENSUS ON PROPOSED IMF QUOTA ALLOCATIONS. THE NINE ARE EXPECTED TO PUT THIS PROPOSAL FORWARD AT THE WP-3 MEETING IN PARIS ON MAY 14. AFTER FIRST DOUBLING THE OPEC QUOTA SHARES, THE PROPOSAL WOULD MAINTAIN THE RELATIVE SHARES OF THE LDCS AND ALLOCATE THE REMAINING SHARES ON THE BASIS OF THE BRETTON WOODS FORMULA. THE EC APPLIES THIS FORMULA TO THE NEW QUOTA TOTAL (I.E. CURRENT PLUS INCREASED QUOTA AMOUNTS). THE NEW QUOTAS, HOWEVER, WOULD BE LIMITED TO A MINIMUM OF 110 PERCENT AND A MAXIMUM OF 147 PERCENT

CONFIDENTIAL

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PAGE 02 EC BRU 03437 171849Z

OF THE ABSOLUTE AMOUNTS OF THE OLD QUOTAS OF

INDUSTRIALIZED COUNTRIES, OTHER DEVELOPED COUNTRIES AND CHINA. THESE LIMITS REPRESENT A POLITICAL COMPROMISE AMONG THE NINE. AS A RESULT, THE PROPOSED UK QUOTA IS 7.96 PERCENT, WHICH COMMISSION OFFICIALS BELIEVE IS TOO HIGH. WITHOUT THE MINIMUM LIMIT, THE UK QUOTA WOULD HAVE BEEN REDUCED TO 4.5 PERCENT. THE INCREASE IN THE JAPANESE AND FRG QUOTAS WERE ALSO RESTRAINED BY THE MAXIMUM LIMIT.

3. US QUOTA: THE EC RECOGNIZES THAT THE US MAY HAVE DIFFICULTY AGREEING TO A QUOTA REDUCTION FROM 22.95 TO 19.59 PERCENT. THE NINE HOPE TO MOLLIFY US BY PROPOSING THAT THE IMF ARTICLES OF AGREEMENT SHOULD BE CHANGED SO THAT AN 85 PERCENT MAJORITY VOTE WOULD BE REQUIRED IN ALL BOARD DECISIONS. THIS WOULD ENABLE THE US TO MAINTAIN ITS VETO POWER.

4. BREAKDOWN OF QUOTAS: THE EC IS PROPOSING THE FOLLOWING QUOTA ALLOCATIONS:  
EC PROPOSALS FOR ALLOCATION OF IMF QUOTAS IN PERCENTAGES

	A	B		
INDUSTRIALISED COUNTRIES	62.92	58.71		
OF WHICH EC NINE	(29.64)	(28.65)		
CANADA	(3.56)	(3.65)		
GERMANY	(5.14)	(5.97)		
JAPAN	(4.11)	(4.47)		
UK	(9.59)	(7.96)		
US	(22.95)	(19.59)		
OTHER DEVELOPED COUNTRIES	9.37	9.06		
OPEC COUNTRIES	4.98	9.96		
DEVELOPING COUNTRIES	20.85	20.85		
CHINA	1.88	1.42		
TOTAL	100.00	100.00		

A-CURRENT QUOTA      B- EC PROPOSED ALLOCATION

5. TREATMENT OF GOLD: THE COMMITTEE AGREED THAT ANY DECISION REGARDING THE TREATMENT OF THE IMF'S GOLD HOLDINGS SHOULD BE DECIDED BY AN 85 PERCENT MAJORITY. NO AGREEMENT WAS REACHED ON HOW TO DISPOSE OF THESE CONFIDENTIAL

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PAGE 03 EC BRU 03437 171849Z

HOLDINGS. THE FRG, UK, NETHERLANDS AND PERHAPS OTHERS REPORTEDLY FAVORED HAVING THE IMF SELL GOLD TO MEMBER COUNTRIES AT MARKET-RELATED PRICES. A PORTION OF THIS REVENUE WOULD BE GIVEN TO THE PROPOSED TRUST FUND FOR THE MSA'S. FRANCE OBJECTED TO THIS PROPOSAL AND MAINTAINED THAT THE IMF HOLDINGS SHOULD BE RETURNED TO THEIR "LAWFUL" OWNERS. COMMISSION OFFICIALS OBSERVE THAT CONSIDERABLE TIME WILL BE NEEDED BEFORE

AGREEMENT IS REACHED ON THE TRUST FUND AND THIS PROPOSAL WAS CONSEQUENTLY NOT DISCUSSED IN DEPTH.

6. GOLD SALES: THE COMMITTEE DISCUSSED THE POSSIBILITY OF THE IMF ACCEPTING PAYMENT IN GOLD OF THE GOLD TRANCHE OF QUOTA INCREASES AT A MUTUALLY-A433\$ 709, 048CE. THIS ARRANGEMENT WOULD BE CONTINGENT ON ACCEPTANCE OF THE PROPOSED EC PROCEDURES FOR BUYING AND SELLING OF GOLD OVER THE NEXT TWO YEARS (SEE REF B). THE COMMITTEE DID NOT DISCUSS THIS PROPOSAL IN DETAIL, BECAUSE FRANCE CONTINUES TO OBJECT TO IT. THERE HAS BEEN VIRTUALLY NO FORWARD PROGRESS ON THIS PROPOSAL SINCE THE EC FINANCE COUNCIL TOOK IT UP ON FEBRUARY 17 THE CONCIL IS NOT EXPECTED TO DISCUSS IT ON APRIL 21. OTHER MEMBER STATES AND THE COMMISSION PLAN TO BIDE THEIR TIME. COMMISSION OFFICIALS SEE INDICATIONS THAT FRANCE IS SOFTENING ITS POSITION AND ARE HOPEFUL OF EVENTUALLY OBTAINING EC AGREEMENT ON THE CENTRAL BANKERS' PROPOSAL AND ON TREATMENT OF GOLD IN THE IMF.

7. EXCHANGE RATE: THE COMMITTEE AGREED THAT IMF ARTICLE IV, SEC. 3 SHOULD NOT BE AMENDED TO PROVIDE FOR A SYSTEM OF ONLY FLOAING RATES FOR AN INTERIM PERIOD. MOST MEMBER STATES FAVORED A SYSTEM IN WHICH BOTH FLOATING AND FIXED RATES WOULD BE ALLOWED FOR AN INTERIM PERIOD. FRANCE, HOWEVER, OPPOSED ALLOWING RATES TO FLOAT FREELY BUT, INSTEAD, FAVORED DRAWING UP IMF CONDITIONS UNDER WHICH CURRENCIES COULD FLOAT ONLY ON AN EXCEPTIONAL BASIS.  
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